

MUSKEGON HOUSING COMMISSION
MUSKEGON, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Muskegon Housing Commission		County Muskegon	
Fiscal Year End September 30, 2005		Opinion Date March 22, 2006		Date Audit Report Submitted to State May 20, 2006			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input type="checkbox"/>		
The letter of Comments and Recommendations		<input type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>	Report of Compliance and on Internal Control	
Certified Public Accountant (Firm Name) BARRY E. GAUDETTE, CPA, PC			Telephone Number (231) 946-8930	
Street Address 1107 E. EIGHTH STREET			City TRAVERSE CITY	State MI
			Zip 49686	
Authorizing CPA Signature <i>Barry E. Gaudette, PC</i>		Printed Name BARRY E. GAUDETTE		License Number 11050

MUSKEGON HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Muskegon Housing Commission
Muskegon, Michigan

I have audited the accompanying financial statements of the business-type activities of the Muskegon Housing Commission, Michigan, a component unit of the City of Muskegon, as of and for the year ended September 30, 2005, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Muskegon Housing Commission, Michigan, as of September 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6(D), the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as amended and interpreted as of September 30, 2005.

Muskegon Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated March 22, 2006, on my consideration of Muskegon Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 7, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Muskegon Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Muskegon Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bary E. Faudett, CPA, PC

March 22, 2006



This discussion and analysis of the Muskegon Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

Entity-Wide Statements

The combined financial statements show, in one place, all of the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

Fund Statements

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Proprietary Fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Entity-Wide Financial Highlights

The Commission was awarded the following Federal Assistance:

	<u>Year 2005</u>	<u>Year 2004</u>	<u>Difference</u>
Operating Subsidies	\$ 329,141	\$ 380,852	\$ (51,711)
Section 8 Housing Choice			
Vouchers	896,545	867,342	29,203
Capital Projects Funds	39,034	448,400	(409,366)

The Commission's cash position increased during the year; our fixed assets after depreciation decreased, our total liabilities decreased, and Net Assets decreased. The following represents the aforementioned positions.

Entity-Wide Financial Highlights - Continued

	<u>Year 2005</u>	<u>Year 2004</u>	<u>Difference</u>
Cash	\$ 902,885	\$ 802,547	\$ 100,338
Accounts Receivable/Other Assets	56,149	84,786	(28,637)
Fixed Assets, net of Depreciation	3,817,155	3,973,989	(156,834)
Assets held for Sale	170,500	127,874	(42,626)
Total Liabilities	144,411	171,118	(26,707)
Net Assets	4,881,121	4,977,003	(95,882)

Significant changes in the above are as follows:

Our cash position increased as a result of a net profit prior to depreciation of \$81,315; our fixed assets decreased as a result of depreciation expense of \$170,738, and additions of \$13,904; our Net Assets decreased by the amount of the net loss of \$89,420 and a elimination of the prior year Interfund due to/from which has been eliminated in the upper level financial statements in the current year.

	<u>Year 2005</u>	<u>Year 2004</u>	<u>Difference</u>
Revenues:			
Tenant Revenues	\$ 335,083	\$ 326,284	\$ 8,799
HUD Grants	1,264,720	1,696,684	(431,964)
Expenses:			
Administrative	353,043	381,650	(28,607)
Utilities	208,249	202,199	6,050
Maintenance & Operations	159,574	217,525	(57,951)
Protective Services	93,098	90,475	2,623
General Expenses	50,126	85,964	(35,838)
Housing Assistance Payments	726,793	781,063	(54,270)
Depreciation Expenses	170,738	156,348	14,390

Significant changes in the above are as follows:

HUD grants are a result of requisitioning eligible funds. HUD grants received are a result of calculations under the Performance Funding System, and Capital grants authorized and obligated during the year, and the Housing Choice Voucher Assistance Payments. The majority of the change is the result of a decrease in Capital Fund Program(CFP) expenditures decreased by \$409,366. This was the result of completing the 2004 CFP and waiting until fiscal year 2006 to begin the 2005 CFP.

Our Maintenance & Operations decreased as a result of contracting a majority of the routine repairs and maintenance to outside contractors and cutting the maintenance staff accordingly; this

Entity-Wide Financial Highlights - Continued

has proved to be a much more efficient and cost effective process.

As a percentage of the total, no other line items are significantly changed.

The Commission provided the following housing for low to moderately low income families:

	<u>Year 2005</u>	<u>Year 2004</u>
Low Rent Public Housing	167	167
Home Ownership Program	2	5
Section 8 Housing Choice Vouchers	164	164

General Fund Budgetary Highlights

The Commission approved an operating budget on April 19, 2004 for the fiscal year ending September 30, 2005; we amended the budget on July 14, 2005. The revision consisted primarily of the following adjustments:

	<u>Original</u>	<u>Revised</u>	<u>Difference</u>
Total Revenue	\$ 483,900	\$ 500,850	\$ 16,950
Routine Operating Expenses	868,871	822,110	(46,761)
Net Income(Loss) before depreciation	(32,063)	31,647	63,710

The significant changes between the original and revised budget are as follows:

Tenant rents were increased \$12,000, and interest income increased \$5,000 to more closely reflect the anticipated annual income.

Expenses were decreased significantly as follows:

Electricity was decreased \$10,000; Protective services were decreased \$20,000 as a result of a change in the scope of work for guards; Insurance cost were decreased approximately \$20,000 as a result of bidding out the contracts and finding similar coverage at a substantial decrease.

The net result was a net income before depreciation of \$31,647 or an increase of \$63,710.

The actual results were a net profit before depreciation of \$81,315 which was better than the budget of \$31,647; the actual results

General Fund Budgetary Highlights - Continued

were influenced by the selling of a homeownership home and unbudgeted income from an Alltel tower contract.

Entity Wide Capital Assets

Our capital assets before depreciation increased \$13,904; this was from the completion of the kitchen renovations (2003 CFP). We closed out the 2001 CFP program which was a part of the total assets in both the 2004 and 2005 totals, however, the assets became eligible for depreciation which increase depreciation expense from \$156,348 to \$170,738.

Commission's Position

The Commission expects to continue to provide safe, sanitary and decent housing for the low and moderately low income families. We intend to use the 2005 CFP of \$209,463 to renovate approximately 10 more units (\$30,000), upgrade our security systems (\$20,000), revitalize the energy management system (\$40,000), add programmable thermostats in the apartments and common areas (\$49,500), and supplement operations with the balance.

The Commission is concerned with the increase in Federal unfunded mandates such as project based accounting, asset management, and uncertainty in future funding with the new subsidy calculations and cuts in other federal programs. HUD has mandated mixed populations in our senior highrise; this concept has proven to be costly and disruptive - our senior base has diminished and the young disabled bring on additional administrative considerations - because the of age difference and normal living habits, the young and old have difficulty living in such a close proximity; we will continue to try to balance the interest of both. We have been working with the tenants to re-initiate a resident counsel which could assist in resolving tenant issues within the building.

The Commission is also interested in acquiring another homeownership program if funding is available; we have vacant land available to construct several units and would be willing to work with HUD and the city to develop much needed 2 and 3 bedroom homes.

Questions and comments regarding this Management Discussion and Analysis may be directed to:

Yvonne Morrissey, Executive Director
Muskegon, MI 49442-2608

FINANCIAL STATEMENTS

MUSKEGON HOUSING COMMISSION
STATEMENT OF NET ASSETS
September 30, 2005
=====

ASSETS

Current Assets:

Cash	\$ 902,885
Accounts receivable-tenants	12,670
Allowance for doubtful accounts	(215)
Mortgages receivable-current portion	6,407
Investments-unrestricted	62,020
Prepaid expenses	15,924
Inventories	<u>127,874</u>

Total Current Assets 1,127,565

Restricted cash 30,812

Property and Equipment:

Land	219,000
Buildings	5,446,371
Equipment	323,352
Building improvements	<u>407,814</u>
	6,396,537
Less: accumulated depreciation	<u>(2,579,382)</u>

Net Property and Equipment 3,817,155

Other Assets:

Mortgages receivable-noncurrent portion	<u>50,000</u>
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Total Assets \$ 5,025,532

See notes to financial statements

MUSKEGON HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2005
=====

LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 26,106
Tenant security deposit liability	42,500
Accrued expenses	3,188
Deferred revenues	7,852
Other current liabilities	5,635
Accrued liabilities-other	<u>30,436</u>
Total Current Liabilities	115,717
Noncurrent Liabilities:	
Accrued compensated absences	<u>28,694</u>
Total Liabilities	<u>144,411</u>
Net Assets:	
Invested in capital assets	3,817,155
Unrestricted net assets	<u>1,063,966</u>
Total Net Assets	<u>4,881,121</u>
Total Liabilities and Net Assets	<u>\$ 5,025,532</u>

See notes to financial statements

MUSKEGON HOUSING COMMISSION
STATEMENT OF ACTIVITIES
Year Ended September 30, 2005
=====

OPERATING REVENUES:

Dwelling rent	\$ 333,860
Non-dwelling rent	<u>1,223</u>
Total operating revenues	<u>335,083</u>

OPERATING EXPENSES:

Administration	353,043
Tenant services	857
Utilities	208,249
Ordinary maintenance and operation	159,574
Protective services	93,098
General expenses	50,126
Extraordinary maintenance	1,191
Housing assistance payments	726,793
Depreciation	<u>170,738</u>
Total operating expenses	<u>1,763,669</u>

Operating income(loss) (1,428,586)

NONOPERATING REVENUES:

Investment interest income	14,397
Other income	49,157
Gain on sale of fixed assets	10,892
Capital grants	14,401
Operating grants	<u>1,250,319</u>

Total nonoperating revenues 1,339,166

Change in net assets (89,420)

Prior period adjustments, equity transfers
and correction of errors (6,462)

Net assets, beginning 4,977,003

Net assets, ending \$ 4,881,121

See notes to financial statements

MUSKEGON HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended September 30, 2005
=====

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 334,979
Cash payments to other suppliers of goods and services	(1,227,009)
Cash payments to employees for services	(351,291)
Cash payments for in lieu of taxes	<u>(13,597)</u>
Net cash (used) by operating activities	<u>(1,256,918)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Adjustments	(5,725)
FSS deposits received	10,368
Tenant security deposits	(4,151)
Operating grants	1,244,290
Other revenue	<u>48,917</u>
Net cash provided by noncapital financing activities	<u>1,293,699</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Gain on sale of fixed assets	10,892
Capital grants	14,401
Payments for capital acquisitions	<u>(14,401)</u>
Net cash provided by capital and related financing activities	<u>10,892</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of assets	42,626
Certificates of deposits increased	(834)
Receipts of interest and dividends	<u>14,397</u>
Net cash provided by investing activities	<u>56,189</u>

Net increase(decrease) in cash	103,862
Cash, beginning	<u>829,835</u>
Cash, ending	<u>\$ 933,697</u>

MUSKEGON HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2005
=====

RECONCILIATION OF CASH AND CASH EQUIVALENTS
PER STATEMENT OF CASH FLOWS TO THE BALANCE
SHEET:

Cash	\$ 902,885
Restricted cash	<u>30,812</u>
Cash and cash equivalents per balance sheet	<u>\$ 933,697</u>

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

Operating income(loss)	\$(1,428,586)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	170,738
Bad debt allowance	215
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(5,651)
Prepaid expenses	5,583
Increase (decrease) in liabilities:	
Accounts payable	(2,050)
Accrued compensated absences	(3,120)
Accounts payable-PILOT	406
Deferred revenues	<u>5,547</u>
Net cash (used) by operating activities	<u><u>\$(1,256,918)</u></u>

See notes to financial statements

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
September 30, 2005
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Muskegon Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Muskegon Housing Commission is a component unit of the City of Muskegon, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Muskegon on May 25, 1965, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Muskegon Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3013, the Housing Commission constructed, maintains and operates 166 units of subsidized housing in the City of Muskegon, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 165 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Muskegon Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Inventory

Inventory is priced using the average cost method.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$1,000 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Equipment and furnishings	5 - 10 years
Building improvements	10 - 15 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-Fy 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave is not cumulative (unless approved in advance by the Director) and shall be taken during the calendar year following the one in which it was earned unless conditions render it impossible, all employees shall take their vacation. If unused vacation time is not taken as directed, the unused vacation time will be forfeited as of December 31 of that year and may not be carried over into the next succeeding year.
- * Sick leave: All permanent full-time employees will accumulate sick leave at the rate of one (1) day for each thirty (30) calendar days of service. Sick leave without pay may be accumulated without limit. An employee is eligible to receive fifty per cent (50%) of his/her accrued sick leave, with payment made at that employee's current rate of pay.

- * Personal leave days: Each employee is entitled to two (2) personal leave time shall be taken subject to notice at least 24 hours in advance of the date requested. Personal leave days may not be accumulated and, if not used within a calendar year, will be forfeited.

The amount of accumulated benefits at September 30, 2005, was \$31,882, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$933,595 and the bank balance was \$987,152 of which \$868,554 was covered by federal depository insurance. The Housing Commission also has \$102 in petty cash.

Investments

The Housing Commission had the following investments in certificates of deposit as September 30, 2005:

National City Bank (CD #2075868055)	\$ 18,076
National City Bank (CD #2075868259)	41,067
Huntington Bank (Savings #01171119395)	<u>2,877</u>
	<u>\$ 62,020</u>

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | | |
|-------------------------------------|---|----------|
| 1. U.S. Treasury Notes | - | 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - | 75% and |
| 3. Mortgage Backed Securities | - | 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the statement of net assets is as follows:

Cash on hand	\$	102
Carrying amount of deposits		933,595
Investments		<u>62,020</u>
Total	\$	<u>995,717</u>

Cash and cash equivalents:	
Enterprise activities	\$ 1,049,274
Enterprise activities - deposits in transit	9,170
Enterprise activities - checks written in excess of deposits	(62,727)
Total	<u>\$ 995,717</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2005, the receivables were \$12,670 with \$215 estimated as uncollectible. Bad debt expense was \$-0-.

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$ 22,142	Housing Choice Voucher Program	\$ 22,142
	<u>\$ 22,142</u>		<u>\$ 22,142</u>

The capital fund program transferred \$24,633 to the Low Rent Program during the fiscal year ended September 30, 2005.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Balance 09/30/04</u>	<u>Additions/Retirements/ Transfers</u>	<u>Balance 09/30/05</u>
Capital Fund Program			
Building improvements	<u>\$ 629,985</u>	<u>\$ 13,664</u>	<u>\$ 407,814</u>

	<u>Balance</u> <u>09/30/04</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>09/30/05</u>
Housing Choice Voucher Program				
Furniture, equip. and machinery-dwellings	\$ 10,245	\$	\$	\$ 10,245
	10,245	\$	\$	10,245
Less accumulated depreciation	(10,245)	\$		(10,245)
Total	\$			\$
Low Rent Program				
Land	\$ 219,100	\$	\$ 100	\$ 219,000
Buildings	5,210,436	235,935		5,446,371
Furniture, equip. & machinery - dwellings	42,932			42,932
Furniture, equip. & machinery - administration	270,175			270,175
	5,742,643	\$ 235,935	\$ 100	5,978,478
Less accumulated depreciation	(2,398,639)	\$ (170,498)	\$	(2,569,137)
Total	<u>\$3,344,004</u>			<u>\$3,409,341</u>
Combined Totals				<u>\$3,817,155</u>

NOTE 5: INVESTED IN CAPITAL ASSETS

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended September 30, 2005, consist of the following:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning	\$ 3,973,989
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	(156,834)
Balance, ending	<u>\$ 3,817,155</u>

These reclassifications are investments in fixed assets, net of depreciation paid for from operations, not included in contributed capital.

NOTE 6: OTHER INFORMATION

A. Pension Plan

The Muskegon Housing Commission participates in a pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department of Management and Budget, Bureau of Retirement Systems. The pension covers all eligible full-time employees and requires a minimum contribution by the employee. At December 31, 2004, the date of the last completed actuarial evaluation, the Housing commission's actuarial accrued liability for retirement benefits is \$311,020. The valuation assets available to meet this obligation are \$189,349. There is an unfunded balance of \$121,671 as of December 31, 2004. The required employer contribution is \$21,660 to meet the normal cost and the unfunded accrued liability. The minimum required monthly employer contribution as a percentage of payroll is 11.19% for general employees. There are five active members, no vested former members, and no retirees and beneficiaries. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual report.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Implementation of New Accounting Standard

As of and for the year ended September 30, 2005, the Housing Commission implemented GASB Statement Number 34 - *Basic Financial Statements -and Management's Discussion and Analysis- State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund

financial statements, consisting of a series of statements that focus on a government's major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

E. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

Adjust prior year accruals	\$(5,725)
2001 cfp transferred from capital fund program	<u>235,835</u>
	<u>\$ 230,110</u>

Capital Fund Program

Adjustment of prior years soft cost	\$(737)
2001 cfp transferred to low rent	<u>(235,835)</u>
	<u>\$(236,572)</u>

NOTE 7: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes three separate programs which provide housing assistance and grant programs. Segment information for the year ended September 30, 2005, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>
Condensed Statement of Net Assets			
Current assets	\$ 909,264	\$	\$ 240,443
Restricted cash			30,812
Property & equipment	3,409,341	407,814	
Other assets	50,000		
Total assets	<u>\$ 4,368,605</u>	<u>\$ 407,814</u>	<u>\$ 271,255</u>
Current liabilities	\$ 85,281	\$	\$ 52,578
Noncurrent liabilities	28,694		
Total noncurrent liabilities	<u>113,975</u>		<u>52,578</u>
Net assets:			
Invested in capital assets	3,409,341	407,814	
Unrestricted net assets	<u>845,289</u>		<u>218,677</u>
Total net assets	<u>4,254,630</u>	<u>407,814</u>	<u>218,677</u>
Total liabilities & net assets	<u>\$ 4,368,605</u>	<u>\$ 407,814</u>	<u>\$ 271,255</u>

	Low Rent Program	Capital Fund Program	Housing Choice Vouchers
Condensed Statement of Activities			
Dwelling and nondwelling rents	\$ 335,083	\$	\$
Depreciation	(170,738)		
Other operating expenses	(791,237)		(801,694)
Operating (loss)	(626,892)		(801,694)
Nonoperating revenues:			
Gain on sale of fixed assets	10,892		
Investment earnings	11,289		3,108
Other income	49,157		
Operating grants	329,141	24,633	896,545
Capital grants		14,401	
Operating transfers	24,633	(24,633)	
Change in net assets	(201,780)	14,401	97,959
Prior period adjustments	230,110	(236,572)	
Beginning net assets	4,226,300	629,985	120,718
Ending net assets	<u>\$ 4,254,630</u>	<u>\$ 407,814</u>	<u>\$ 218,677</u>

**Condensed Statement
of Cash Flows**

Net cash provided (used) by:			
Operating activities	\$ (449,821)	\$	\$ (807,097)
Noncapital financing activities	373,430		920,269
Capital and related financing activities	10,892		
Investing activities	53,081		3,108
Net increase (decrease)	(12,418)		116,280
Beginning cash and cash equivalents	674,860		154,975
Ending cash and cash equivalents	<u>\$ 662,442</u>	<u>\$</u>	<u>\$ 271,255</u>

SUPPLEMENTARY INFORMATION

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 September 30, 2005
 =====

C-3013	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 662,442	\$
Accounts receivable-tenants	12,670	
Allowance for doubtful accounts	(215)	
Mortgages receivable-current	6,407	
Investments-unrestricted	62,020	
Prepaid expenses	15,924	
Inventories	127,874	
Due from other programs	<u>22,142</u>	

Total current assets

<u>909,264</u>	
----------------	--

Restricted cash

--	--

Property and equipment:

Land	219,000	
Buildings	5,446,371	
Equipment	313,107	
Building improvements		<u>407,814</u>
	<u>5,978,478</u>	<u>407,814</u>
Less accumulated depreciation	<u>(2,569,137)</u>	

Net property and equipment

<u>3,409,341</u>	<u>407,814</u>
------------------	----------------

Other assets:

Mortgages receivable-noncurrent	<u>50,000</u>	
---------------------------------	---------------	--

Total Assets

<u>\$ 4,368,605</u>	<u>\$ 407,814</u>
---------------------	-------------------

Housing
Choice
Vouchers
14.871

Totals

\$ 240,443

\$ 902,885
12,670
(215)
6,407
62,020
15,924
127,874
22,142

240,443

1,149,707

30,812

30,812

10,245

219,000
5,446,371
323,352
407,814

10,245

6,396,537

(10,245)

(2,579,382)

3,817,155

50,000

\$ 271,255

\$ 5,047,674

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2005
=====

	C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 26,106	\$
Tenant security deposit liability	42,500	
Accrued expenses	3,188	
Deferred revenues	7,852	
Other current liabilities	5,635	
Accrued liabilities-other		
Due to other programs	<u> </u>	<u> </u>
Total current liabilities	85,281	
Noncurrent liabilities:		
Accrued compensated absences	<u>28,694</u>	<u> </u>
Total liabilities	<u>113,975</u>	<u> </u>
Net Assets:		
Invested in capital assets	3,409,341	407,814
Unrestricted net assets	<u>845,289</u>	<u> </u>
Total net assets	<u>4,254,630</u>	<u>407,814</u>
Total Liabilities and Net Assets	<u>\$4,368,605</u>	<u>\$ 407,814</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 26,106
	42,500
	3,188
	7,852
	5,635
30,436	30,436
<u>22,142</u>	<u>22,142</u>
52,578	137,859
	<u>28,694</u>
<u>52,578</u>	<u>166,553</u>
	3,817,155
<u>218,677</u>	<u>1,063,966</u>
<u>218,677</u>	<u>4,881,121</u>
<u>\$ 271,255</u>	<u>\$ 5,047,674</u>

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
 Year Ended September 30, 2005
 =====

	C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 333,860	\$
Nondwelling rent	<u>1,223</u>	
Total operating revenues	<u>335,083</u>	
OPERATING EXPENSES:		
Administration	278,142	
Tenant services	857	
Utilities	208,249	
Ordinary maintenance and operation	159,574	
Protective services	93,098	
General expenses	50,126	
Extraordinary maintenance	1,191	
Housing assistance payments		
Depreciation	<u>170,738</u>	
Total operating expenses	<u>961,975</u>	
Operating income(loss)	<u>(626,892)</u>	
NONOPERATING REVENUES:		
Operating transfers in (out)	24,633	(24,633)
Investment interest income	11,289	
Other income	49,157	
Gain on sale of fixed assets	10,892	
Capital grants		14,401
Operating grants	<u>329,141</u>	<u>24,633</u>
Total nonoperating revenues	<u>425,112</u>	<u>14,401</u>
Change in net assets	(201,780)	14,401
Prior period adjustments, equity transfers and correction of errors	230,110	(236,572)
Net assets, beginning	<u>4,226,300</u>	<u>629,985</u>
Net assets, ending	<u><u>\$4,254,630</u></u>	<u><u>\$407,814</u></u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 333,860
	<u>1,223</u>
	<u>335,083</u>
74,901	353,043
	857
	208,249
	159,574
	93,098
	50,126
	1,191
726,793	726,793
	<u>170,738</u>
<u>801,694</u>	<u>1,763,669</u>
<u>(801,694)</u>	<u>(1,428,586)</u>
3,108	14,397
	49,157
	10,892
	14,401
<u>896,545</u>	<u>1,250,319</u>
<u>899,653</u>	<u>1,339,166</u>
97,959	(89,420)
	(6,462)
<u>120,718</u>	<u>4,977,003</u>
<u>\$ 218,677</u>	<u>\$ 4,881,121</u>

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended September 30, 2005
 =====

	C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 334,979	\$
Cash payments to other suppliers of goods and services	(487,483)	
Cash payments to employees for services	(283,720)	
Cash payments for in lieu of taxes	<u>(13,597)</u>	
Net cash (used) by operating activities	<u>(449,821)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
FSS deposits received		
Prior period adjustments	(5,725)	
Tenant security deposits	(4,151)	
Due from/to other funds	(19,385)	
Operating transfers in (out)	24,633	(24,633)
Operating grants	329,141	24,633
Other revenue	<u>48,917</u>	
Net cash provided by noncapital financing activities	<u>373,430</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Gain on sale of fixed assets	10,892	
Capital grants		14,401
Payments for capital acquisitions		<u>(14,401)</u>
Net cash provided by capital and related financing activities	<u>10,892</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	42,626	
Certificates of deposits increased	(834)	
Receipts of interest and dividends	<u>11,289</u>	
Net cash provided by investing activities	<u>53,081</u>	
Net increase(decrease) in cash	(12,418)	
Cash, beginning	<u>674,860</u>	
Cash, ending	<u><u>\$ 662,442</u></u>	<u><u>\$</u></u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 334,979
(739,526)	(1,227,009)
(67,571)	(351,291)
<u> </u>	<u>(13,597)</u>
<u>(807,097)</u>	<u>(1,256,918)</u>
10,368	10,368
	(5,725)
	(4,151)
19,385	
890,516	1,244,290
<u> </u>	<u>48,917</u>
<u>920,269</u>	<u>1,293,699</u>
	10,892
	14,401
<u> </u>	<u>(14,401)</u>
	10,892
	42,626
	(834)
<u>3,108</u>	<u>14,397</u>
<u>3,108</u>	<u>56,189</u>
116,280	103,862
<u>154,975</u>	<u>829,835</u>
<u>\$ 271,255</u>	<u>\$ 933,697</u>

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended September 30, 2005
 =====

C-3013	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH
 EQUIVALENTS PER STATEMENT OF CASH
 FLOWS TO THE BALANCE SHEET:**

Cash	\$ 662,442	\$
Restricted cash	<u> </u>	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 662,442</u>	<u>\$</u>

**SCHEDULE RECONCILING OPERATING INCOME
 TO NET CASH FLOW FROM OPERATING
 ACTIVITIES:**

Operating income(loss)	\$ (626,892)	\$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	170,738	
Bad debt allowance	215	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(5,651)	
Prepaid expenses	5,583	
Increase (decrease) in liabilities:		
Accounts payable	(2,050)	
Accrued compensated absences	2,283	
Accounts payable-PILOT	406	
Deferred revenues	<u>5,547</u>	
Net cash (used) by operating activities	<u>\$ (449,821)</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 240,443	\$ 902,885
<u>30,812</u>	<u>30,812</u>
<u>\$ 271,255</u>	<u>\$ 933,697</u>
 \$(801,694)	 \$(1,428,586)
	170,738
	215
	(5,651)
	5,583
(5,403)	(2,050)
	(3,120)
	406
<u> </u>	<u>5,547</u>
<u>\$(807,097)</u>	<u>\$(1,256,918)</u>

MUSKEGON HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2005
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Major - Direct Program</u>		
2005	Low Rent Public Housing	14.850	\$ 329,141
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2005	Capital Fund Program	14.872	39,034
	<u>Low Income Public Housing Major - Direct Program</u>		
2005	Housing Choice Vouchers	14.871	<u>896,545</u>
	Total		<u>\$1,264,720</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
Year Ended September 30, 2005
=====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 662,442	\$
113	Cash-other restricted		
100	Total cash	<u>662,442</u>	
	Receivables:		
126	A/R-tenants-dwelling rents	12,670	
126.1	Allowance for doubtful accounts - dwelling rents	(215)	
127	Mortgages receivable-current	<u>6,407</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>18,862</u>	
	Current Investments:		
131	Investments-unrestricted	<u>62,020</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	15,924	
143	Inventories	127,874	
144	Interprogram due from	<u>22,142</u>	
	Total other current assets	<u>165,940</u>	
150	Total current assets	<u>909,264</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	219,000	
162	Buildings	5,446,371	
163	Furn, equip & mach-dwellings	42,932	
164	Furn, equip & mach-admin.	270,175	
165	Building improvements		407,814
166	Accumulated depreciation	<u>(2,569,137)</u>	
160	Total fixed assets, net of accumulated depreciation	3,409,341	407,814
171	Mortgages receivable-noncurrent	<u>50,000</u>	
180	Total noncurrent assets	<u>3,459,341</u>	<u>407,814</u>
190	Total Assets	<u>\$ 4,368,605</u>	<u>\$407,814</u>

Housing
Choice
Vouchers
14.871

Totals

\$ 240,443
30,812

\$ 902,885
30,812

271,255

933,697

12,670

(215)
6,407

18,862

18,862

62,020

62,020

15,924
127,874
22,142

165,940

165,940

271,255

1,180,519

10,245
(10,245)

219,000
5,446,371
42,932
280,420
407,814
(2,579,382)

3,817,155

3,817,155

50,000

50,000

3,867,155

3,867,155

\$ 271,255

\$ 5,047,674

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2005
 =====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
322	Accrued compensated absences	\$ 3,188	\$
333	Accounts payable-other government	26,106	
341	Tenant security deposits	42,500	
342	Deferred revenues	7,852	
345	Other current liabilities	5,635	
346	Accrued liabilities-other		
347	Interprogram due to		
		<hr/>	<hr/>
310	Total current liabilities	85,281	
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>28,694</u>	
300	Total liabilities	<u>113,975</u>	
	Net Assets:		
508.1	Invested in capital assets	<u>3,409,341</u>	<u>407,814</u>
508	Total invested in capital assets	3,409,341	407,814
512.1	Unrestricted net assets	<u>845,289</u>	
513	Total Net Assets	<u>4,254,630</u>	<u>407,814</u>
600	Total Liabilities and Net Assets	<u>\$ 4,368,605</u>	<u>\$407,814</u>

Housing Choice Vouchers		Totals
<u>14.871</u>		
\$	\$	3,188
		26,106
		42,500
		7,852
		5,635
30,436		30,436
<u>22,142</u>		<u>22,142</u>
52,578		137,859
		<u>28,694</u>
<u>52,578</u>		<u>166,553</u>
		<u>3,817,155</u>
		3,817,155
<u>218,677</u>		<u>1,063,966</u>
<u>218,677</u>		<u>4,881,121</u>
<u>\$ 271,255</u>	<u>\$</u>	<u>5,047,674</u>

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2005
=====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 333,860	\$
704	Tenant revenue-other	<u>1,223</u>	
705	Total tenant revenue	335,083	
706	HUD PHA grants	329,141	24,633
706.1	Capital grants		<u>14,401</u>
711	Investment income-unrestricted	11,289	
715	Other revenue	49,157	
716	Gain on sale of fixed assets	<u>10,892</u>	
700	Total revenue	<u>735,562</u>	<u>39,034</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	134,226	
912	Auditing fees	2,127	
914	Compensated absences	2,283	
915	Employee benefit contributions-adm.	60,616	
916	Other operating-administrative	78,890	
	Tenant Services:		
922	Relocation costs	266	
923	Employee benefit contributions	591	
	Utilities:		
931	Water	28,593	
932	Electricity	96,071	
933	Gas	76,011	
938	Other utilities expense	7,574	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	62,661	
942	Ordinary maint & oper-mat'ls & other	18,222	
943	Ordinary maint & oper-contract costs	50,191	
945	Employee benefit contributions	28,500	
952	Protective services-other contract costs	93,098	
	General expenses:		
961	Insurance premiums	35,629	
962	Other general expenses	1,973	
963	Payments in lieu of taxes	14,003	
964	Bad debt-tenant rents	<u>(1,479)</u>	
969	Total operating expenses	<u>790,046</u>	

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 333,860
	<u>1,223</u>
	335,083
896,545	1,250,319
	14,401
3,108	14,397
	49,157
	<u>10,892</u>
<u>899,653</u>	<u>1,674,249</u>
43,000	177,226
1,873	4,000
(5,403)	(3,120)
19,168	79,784
16,263	95,153
	266
	591
	28,593
	96,071
	76,011
	7,574
	62,661
	18,222
	50,191
	28,500
	93,098
	35,629
	1,973
	14,003
	(<u>1,479</u>)
<u>74,901</u>	<u>864,947</u>

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended September 30, 2005

=====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
970	Excess operating revenue over operating expenses	(54,484)	<u>39,034</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	1,191	
973	Housing assistance payments		
974	Depreciation expense	<u>170,738</u>	
	Total other expenses	<u>171,929</u>	
900	Total expenses	<u>961,975</u>	
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	(226,413)	39,034
	Other Financing Sources(Uses):		
1001	Operating transfers in (out)	<u>24,633</u>	<u>(24,633)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(201,780)	14,401
1103	Beginning Net Assets	4,226,300	629,985
1104	Prior period adjustments, equity transfers and correction of errors	<u>230,110</u>	<u>(236,572)</u>
	Ending Net Assets	<u>\$ 4,254,630</u>	<u>\$407,814</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
<u>824,752</u>	<u>809,302</u>
726,793	1,191 726,793 <u>170,738</u>
<u>726,793</u>	<u>898,722</u>
<u>801,694</u>	<u>1,763,669</u>
97,959	(89,420)
<u>97,959</u>	<u>(89,420)</u>
120,718	4,977,003
<u> </u>	<u>(6,462)</u>
<u>\$ 218,677</u>	<u>\$ 4,881,121</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Muskegon Housing Commission
Muskegon, Michigan

I have audited the financial statements of the business-type activities of the Muskegon Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2005, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated March 22, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated March 22, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Muskegon Housing Commission
Page Two

Compliance and Other Matters (continued)

could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bary E. Sandell, CPA, PC

March 22, 2006

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Muskegon Housing Commission
Muskegon, Michigan

Compliance

I have audited the compliance of the Muskegon Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Muskegon Housing Commission
Page Two

Compliance (continued)

In my opinion, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2005.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated March 22, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Dany E. Tardiff, CPA

March 22, 2006

MUSKEGON HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2005
=====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weakness identified No
 - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness identified No
 - b. Reportable condition that is not a material weakness No
2. Type of auditor's report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 No
4. Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>	<u>Amount Expended</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Questioned Costs</u>	<u>Audit Finding</u>
14.850	Low Rent Public Housing	\$ 329,141	Yes	O	N/A	N/A
14.872	Capital Fund Program	39,034	No	O	N/A	N/A
14.871	Housing Choice Vouchers	<u>896,545</u>	Yes	O	N/A	N/A
	Total	<u>\$1,264,720</u>				

5. Dollar threshold used to distinguish between type A and type B programs \$300,000
6. Auditee qualified as low-risk auditee? No

MUSKEGON HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005

=====

B.	Financial Statement Findings	None
C.	Federal Award Findings and Questioned Costs	None

MUSKEGON HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
September 30, 2005
=====

NONE

MUSKEGON HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
 SEPTEMBER 30, 2005
 =====

<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
-----------------------	---------------------	--------------	---------------

LOW RENT PROGRAM:

	(1)		
1167	Investments	\$ 931.24	
3610.01	Interest income		\$ 931.24
	To accrue interest on CD's.		

Reclassifications

LINE NUMBER

127	Mortgages receivable-		
	current portion	\$ 6,406.70	
171	Mortgages receivable-		
	noncurrent portion	50,000.00	
125	Accounts receivable-		
	miscellaneous		\$ 56,406.70

HOUSING CHOICE VOUCHER PROGRAM:

	(1)		
1165	FSS investments	\$ 266.73	
3610	Interest income		\$ 266.73
	To adjust to 9/30/05 bank balance.		

MUSKEGON HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

SEPTEMBER 30, 2005

MUSKEGON HOUSING COMMISSION
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SEPTEMBER 30, 2005

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Management Advisory Comments	4
Adjusting Journal Entries	5

**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Muskegon Housing Commission

I have audited the financial statements of the Muskegon Housing Commission ("Housing Commission") as of and for the year ended September 30, 2005, and have issued my report, thereon, dated March 22, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were two audit adjusting journal entries, but no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see adjusting entries on page 5).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There were no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Bany E. Tander, CPA, PC

March 22, 2006

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Muskegon Housing Commission

I have audited the financial statements of the Muskegon Housing Commission ("Housing Commission") as of and for the year ended September 30, 2005, and have issued my report, thereon, dated March 22, 2006. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

March 22, 2006

MUSKEGON HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
September 30, 2005

=====

It was not necessary to make any management advisory comments.

MUSKEGON HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
 September 30, 2005
 =====

Account #	Account Name	Debit	Credit
 LOW RENT PROGRAM			
		(1)	
1167	Investments	\$ 931.24	
3610.01	Interest income		\$ 931.24
	To accrue interest on CD's.		
 HOUSING CHOICE VOUCHER PROGRAM			
		(5)	
1165	FSS investments	\$ 266.73	
3610	Interest income		\$ 266.73
	To adjust to 9/30/05 bank balance.		